



Japan-U.S. Relations: Issues for Congress

Emma Chanlett-Avery, Coordinator

Specialist in Asian Affairs

William H. Cooper

Specialist in International Trade and Finance

Mark E. Manyin

Specialist in Asian Affairs

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Summary

The post-World War II U.S.-Japan alliance has long been an anchor of the U.S. security role in East Asia. The alliance facilitates the forward deployment of about 36,000 U.S. troops and other U.S. military assets in the Asia-Pacific, thereby undergirding U.S. national security strategy in the region. For Japan, the alliance and the U.S. nuclear umbrella provide maneuvering room in dealing with its neighbors, particularly China and North Korea.

U.S.-Japan relations have been adjusting to the Democratic Party of Japan's (DPJ) landslide victory in the August 30, 2009 elections for the Lower House of Japan's legislature. With the resignation of the DPJ's first prime minister, Yukio Hatoyama, the United States must now adjust to the leadership of Naoto Kan, the new premier. While most members of the left-of-center DPJ are broadly supportive of the U.S.-Japan alliance and the general thrust of Japanese foreign policy, in the past the party has questioned and/or voted against several features of the alliance, including base realignment and Japan's financial payments for U.S. forces stationed in Japan. The Party has put forward a foreign policy vision that envisions greater "equality" in Japan's relations with the United States, in part through deeper engagement with Asia and a more United Nations-oriented diplomacy. The DPJ's victory appears to mark the end of an era in Japan; it was the first time Japan's Liberal Democratic Party (LDP) was voted out of office. The LDP had ruled Japan virtually uninterrupted since 1955.

After the DPJ victory, bilateral tensions arose over the 2006 agreement to relocate the controversial Futenma Marine Air Station to a less densely populated location on Okinawa. The move is to be the first part of a planned realignment of U.S. forces in Asia, designed in part to reduce the footprint of U.S. forces on Okinawa by redeploying 8,000 U.S. Marines and their dependents to new facilities in Guam. After months of indecision and mixed messages from Tokyo, the Hatoyama government agreed to honor the original agreement, much to the dismay of the many Okinawans opposed to the base. Kan has voiced his intention to honor the agreement, although many concerns remain about its implementation.

Japan is one of the United States' most important economic partners. Outside of North America, it is the United States' second-largest export market and second-largest source of imports. Japanese firms are the United States' second-largest source of foreign direct investment, and Japanese investors are the second-largest foreign holders of U.S. treasuries, helping to finance the U.S. deficit and reduce upward pressure on U.S. interest rates. Bilateral trade friction has decreased in recent years, partly because U.S. concern about the trade deficit with Japan has been replaced by concern about a much larger deficit with China. One exception was U.S. criticism over Japan's decision in 2003 to ban imports of U.S. beef, which have since resumed, but on a limited basis.

However, the economic problems in Japan and the United States associated with the credit crisis and the related economic recession and how the two countries deal with those problems will likely dominate their bilateral economic agenda for the foreseeable future. Japan has been hit particularly hard by the financial crisis and subsequent recession. Japan's gross domestic product (GDP) declined 1.2% in 2008 and 5.2% in 2009 and is forecast to grow 2.8% in 2010. At the same time, the United States is showing some signs of recovery, at least according to some indicators.

Contents

Recent Developments.....	1
Hatoyama Resigns, Kan Takes Over as Prime Minister.....	1
Japan Accepts Futenma Relocation Plan.....	1
The Role of Congress in U.S.-Japan Relations.....	2
Major Diplomatic and Security Issues	3
North Korea and the Six-Party Talks	3
Afghanistan/Pakistan	4
International Climate Negotiations	4
Regional and Historical Issues.....	5
International Child Custody Disputes	5
Military Issues	6
Realignment Agreement and Futenma Relocation Controversy.....	6
Burden-Sharing Issues and SOFA.....	7
F-22 Debate	7
Extended Deterrence	8
Secret Nuclear Agreement.....	8
Article 9 Restrictions	8
Economic Issues	9
Overview of the Bilateral Economic Relationship.....	10
Bilateral Trade Issues	11
Japan's Ban on U.S. Beef	11
Japan's Eco-Car Program	12
U.S.-Japan FTA.....	12
Insurance	13
The Byrd Amendment	13
WTO Dispute.....	14
The Doha Development Agenda.....	14
Japanese Politics	15
The Political Situation in June 2010	15
Hatoyama and Ozawa's Resignations	15
Kan's Selection as Premier.....	15
July 2010 Upper House Elections.....	16
Brief Profile of Naoto Kan	17
The LDP	18
Japan's Demographic Challenge.....	18
Selected Legislation	18
111 th Congress.....	18

Figures

Figure 1. Map of Japan.....	2
Figure 2. Map of Military Facilities in Japan	9
Figure 3. Party Affiliation in Lower House	16

Figure 4. Party Affiliation in Japan’s Upper House	17
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Tables

Table 1. U.S. Trade with Japan, Selected Years	10
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Contacts

Author Contact Information	20
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Recent Developments

Hatoyama Resigns, Kan Takes Over as Prime Minister

On June 2, 2010, Japanese Prime Minister Yukio Hatoyama resigned from his positions as prime minister and president of the ruling Democratic Party of Japan (DPJ). Hatoyama thus became the fourth consecutive Japanese prime minister to last a year or less in his post. He had assumed the premiership in September 2009, after leading the DPJ to an historic election victory over the Liberal Democratic Party, which had enjoyed virtually continuous control of the Japanese government for over 50 years. Ichiro Ozawa, the Secretary-General of the DPJ who was widely viewed as the real power center during Hatoyama rule, also resigned. A significant factor in Hatoyama's fall was the perception that he mishandled a disagreement with the United States over whether, where, and how to relocate the Futenma U.S. Marine base in Okinawa, sparking a major crisis in U.S.-Japan relations. It is unclear if or to what extent DPJ members, the Japanese elite, or the Japanese public blame the Obama Administration for Hatoyama's resignation.

Within days of Hatoyama's resignation, his former Finance Minister Naoto Kan was selected as DPJ President and Prime Minister. Kan will have to run for party president again when the DPJ holds its regularly scheduled leadership election in September 2010. A longtime proponent of government reform, Kan announced a three-pronged platform that heavily emphasizes domestic issues: reviving Japan's economy, rebuilding its public finances, and turning around its social security system. He stated the U.S.-Japan alliance serves as "the cornerstone" for Japan's foreign policy, but also that Japan needs to "deepen our relations with other Asian countries." He pledged to uphold the Futenma relocation agreement Hatoyama had reached with the United States.

Kan's first electoral test as prime minister will come in the middle to end of July, when half of the Diet's Upper House seats will be up for election. The DPJ has a one-vote majority in that chamber by virtue of an alliance with a handful of small political groups. The DPJ's fortunes in the election may have a formative impact on a number of issues in U.S.-Japan relations. Approval by both chambers of the Diet generally is needed to pass legislation, so a divided parliament could introduce more gridlock into Japanese decision-making.

Japan Accepts Futenma Relocation Plan

Under the Hatoyama Administration, the most prominent controversy in the alliance concerned the planned relocation of the U.S. Marines' Futenma air station to a less crowded part of Okinawa, which threw into doubt a comprehensive realignment of U.S. forces in the region and simultaneously raised fundamental questions about the long-standing security relationship between Tokyo and Washington. In May 2010, the Hatoyama government agreed to move forward with the relocation and re-affirmed the centrality of the alliance to Japanese and regional security. Incoming Prime Minister Naoto Kan affirmed his intention to honor the agreement. U.S. officials stress the value of the bilateral re-examination of the alliance fundamentals that accompanied the Futenma deliberations and voice optimism about building a more vital alliance in the future. Concerns remain, however, about the implementation of the plan, the controversy's residual damage to bilateral security ties, and possible gaps in the overall strategic vision for the alliance.

The Role of Congress in U.S.-Japan Relations

Congressional powers, actions, and oversight form a backdrop against which both the Administration and the Japanese government must formulate their policies. In the 111th Congress, Members' attention to Japan may be most concerned with the status of the military alignment plans in the region. In the 109th and 110th Congress, hearings and legislation concerning Japan focused on thorny history issues as well as the U.S. beef import ban.

Figure 1. Map of Japan



Source: Map Resources. Adapted by CRS.

Major Diplomatic and Security Issues¹

Overall U.S.-Japan relations appear to be in a state of flux. Analysts are divided over whether current controversies are temporary blips in an otherwise strong partnership or are indicative of more fundamental shifts. When the DPJ came into power under Hatoyama's leadership, relations with Washington got off to a rocky start because of the Futenma issue, but some observers chalk this up to the DPJ's inexperience in governance. Leaders in Washington and Tokyo have emphasized repeatedly the strategic importance of the relationship in multiple high-level meetings. Both President Obama and Secretary of State Hillary Clinton have re-affirmed the axiom that the U.S.-Japan alliance is "the cornerstone of U.S. Asia-Pacific strategy." Although the DPJ was critical of some aspects of the U.S.-Japan alliance while campaigning and has called for a more U.N. and Asia-oriented diplomacy, it has also acknowledged the central role of the alliance with the United States in providing for Japan's security.

Although the DPJ's election provided the impetus for a re-examination of ties, friction in the alliance and stalemate on the Okinawa agreement had been present for several years under previous LDP governments. After a period of rejuvenated defense ties in the first years of the George W. Bush Administration, expectations of a transformed alliance with a more forward-leaning defense posture from Japan diminished. In the final years of the decade, political paralysis and budgetary constraints in Tokyo, Japan's slow-to-little progress in implementing base realignment agreements, Japanese disappointment in Bush's policy on North Korea, and a series of smaller concerns over burden-sharing arrangements led to reduced cooperation and a general sense of unease about the partnership. It remains to be seen if relations can recover their earlier strength with Kan assuming the premiership.

Japan Country Data

Population: 127 million

% of Population over 64: 22% (U.S. = 12.4%)

Area: 377,835 sq km (slightly smaller than California)

Life Expectancy: 82 years

Per Capita GDP: \$32,600 (2009 est.)
purchasing power parity

Primary Export Partners: US 17.8%, China 16%, South Korea 7.6%, Hong Kong 5.1% (2008)

Primary Import Partners: China 18.9%, U.S. 10.4%, Saudi Arabia 6.7%, Australia 6.2%, UAE 6.1%, Indonesia 4.3% (2008)

Yen: Dollar Exchange Rate: 94.5 (2009), 103.58 (2008), 117.99 (2007), 116.18 (2006), 110.22 (2005)

Foreign Exchange Reserves: \$1.011 trillion (December 2008 est.)

Source: CIA *World Factbook*, February 2010

North Korea and the Six-Party Talks

Washington and Tokyo appear to be strongly united in their approach to North Korea in the stalled Six-Party negotiations process. Although the U.S. and Japanese positions diverged in the later years of the Bush Administration, Pyongyang's recent provocations have forged a new consensus among the other parties, particularly Japan, South Korea, and the United States. Tokyo voiced strong support for South Korean President Lee Myung-bak's Administration after Seoul blamed a North Korean torpedo attack for the sinking of a South Korean Navy ship in March 2010. In response to North Korea's nuclear test on May 25, 2009, Japan helped lead international efforts to draft a tough new U.N. Security Council resolution (1874) that strengthens arms embargos on the regime and calls on member states to inspect North Korean vessels for illicit

¹ This section was written by Emma Chanlett-Avery.

weapons. Japan has imposed a virtual embargo on all trade with North Korea. North Korea's missile tests have demonstrated that a strike on Japan is well within range, spurring Japan to move forward on missile defense cooperation with the United States.

In addition to Japan's concern about Pyongyang's weapons and delivery systems, the issue of several Japanese citizens abducted by North Korean agents in the 1970s and 1980s remains a top priority for Tokyo in the multinational negotiations. Japan has pledged that it would not provide economic aid to North Korea without resolution of the abductee issue. The abductee issue remains an emotional topic in Japan. In 2008, the Bush Administration's decision to remove North Korea from the list of state sponsors of terrorism in exchange for North Korean concessions on its nuclear program dismayed Japanese officials, who had maintained that North Korea's inclusion on the list should be linked to the abduction issue.

Afghanistan/Pakistan

Japan's contribution to anti-terrorism and stability operations in Afghanistan has shifted form with the arrival of a new government in Tokyo. As promised during the campaign, the Hatoyama Administration terminated Japan's participation in the U.S.-led Operation Enduring Freedom mission. The Japanese Maritime Self Defense Force had been providing fuel and water to other coalition ships in the Indian Ocean since 2001. When in opposition, the DPJ had opposed the deployment on the grounds that the mission fell under the U.S.-led operation and was not authorized by the United Nations. In exchange, Hatoyama has pledged up to \$5 billion in civilian aid for Afghanistan's reconstruction. In January, Japan offered \$50 million to start a fund designed to convince militants to give up violence and reintegrate into mainstream society.

Japan reportedly considered sending troops to participate in a Provincial Reconstruction Team (PRT) in Afghanistan, but has shied away from such a commitment. A deployment would likely be controversial for the pacifist-leaning Japanese public.

International Climate Negotiations

Tokyo has sought to highlight Japan's leadership on environmental issues, where Japan has long been recognized as a global leader in energy efficiency and development of clean energy technology, including hybrid cars. Japan is the fourth-largest emitter of greenhouse gases after the United States, the Russian Federation, and China. Under the Kyoto Protocol, which Tokyo ratified in 2002, Japan is obligated to reduce its emissions to 6% below its 1990 levels by 2012, although it is unlikely to meet this goal without purchasing international carbon emission offset credits. Japanese industry shares many of the concerns of U.S. industry about the cost and feasibility of robust emission reductions. Prime Minister Hatoyama has pledged to cut Japan's greenhouse emissions to 25% of 1990 levels by 2020 (the "Hatoyama Initiative"), a goal that some experts in Japan have characterized as unrealistic. Japan is considered to be closely aligned with the Obama Administration in international climate negotiations in its position that any legally-binding post-2012 climate agreement must be legally binding in a symmetrical way, with all major economies agreeing to the same elements. Japan is also a strong supporter of the Copenhagen Accord, which was negotiated at that most recent climate change summit in December 2009.

Regional and Historical Issues

Historical issues have long dominated Japan's relationships with its neighbors, with many Asians, and particularly those in China and South Korea, still resentful of Japan's occupation policies and aggression in the World War II period. Despite underlying distrust, Tokyo's relationships with Beijing and Seoul generally appear to be on an upward swing. Under the DPJ, Japan has built upon improvements that began under recent LDP governments. Ceremonial visits have been marked by exceptional warmth. Ozawa led a 600-strong delegation to China in December 2009, where all 140 DPJ lawmakers in the group were greeted personally by President Hu Jintao. About a week later, Chinese Vice President Xi Jinping was granted an audience with the Japanese emperor, although the request was made later than the standard one-month advance protocol. Some commentators fret that Japan is leaning toward China due to strains in its U.S. partnership, and point to former Prime Minister Hatoyama's call for the creation of an "East Asian Community" that could exclude the United States as further indication of this shift.²

Despite these concerns, deep divisions and fundamental mistrust between Japan and China likely precludes a strategic relationship of any depth. In January 2010, Tokyo and Beijing again asserted competing claims over the ownership of underwater gas reserves and several tiny islands in the East China Sea, demonstrating that sovereignty issues between the erstwhile foes are sensitive. At a regional ministerial meeting in May 2010, the Chinese and Japanese foreign ministers engaged in a tense discussion over China's nuclear weapons stockpile, again indicating that relations between Beijing and Tokyo remain delicate.

The DPJ government has indicated a willingness to address Japan's history of aggression in the pre-World War II era in a bid to improve regional relations. Hatoyama has pledged not to visit Yasukuni Shrine (a Shinto shrine that honors Japanese soldiers who died in war, including several convicted Class A war criminals), thereby removing one of the most damaging obstacles to Tokyo's relationship with Beijing and Seoul in the past several years. Relations with South Korea have been on a positive trajectory under President Lee Myung-bak. Lee has invited Emperor Akihito to visit South Korea in 2010, the 100th anniversary of Japan's annexation of the Korean peninsula, providing an opportunity for further reconciliation, but no decision has been announced by Japan. Some regional observers have suggested that the current government may make strides toward mending painful historical memories among the Asian powers.

International Child Custody Disputes

In recent months, the issue of overseas Japanese women in failed marriages taking children to Japan without the consent of the foreign husband or ex-husband has flared. Sometimes, these women have acted in contravention of foreign custody settlements and, after arriving in Japan, have prevented the children from meeting their fathers. With about 70 cases involving over 100 children, the United States reportedly has the largest number of such disputes with Japan. Legally, Japan only recognizes sole parental authority, under which only one parent has parental rights, and there is a deep-rooted notion in Japan that the mother should assume custody. Japanese

² Shortly after the DPJ's election, Hatoyama proposed a vision of creating an "East Asian Community" in the coming decades. Initially, he and Foreign Minister Katsuya Okada and other promoters of this idea seemed to indicate that the grouping should not include the United States. Subsequently, after expressions of concern from U.S. officials, Hatoyama appeared to back off the idea of excluding the United States and has stressed that the Community should be "open."

officials say that, in many cases, the issue is complicated by accusations of abuse or neglect on the part of the foreign spouse, though a senior U.S. State Department official has said that there are “almost no cases” of substantiated claims of violence.³ Japan has not signed the international Hague Convention, which sets down rules on “child abduction” cases. The increased publicity has raised awareness of the issue in Japan, particularly among Diet Members. In December 2009, the Ministry of Foreign Affairs created a new “parental rights of children” office staffed by nine officials in charge of Europe and America and international treaties. The new office will not only deal with cases at issue with other countries, but will also be responsible for studying Japan's accession to the treaty in the future.

Military Issues⁴

Japan and the United States are military allies under a security treaty concluded in 1951 and revised in 1960. Under the treaty, Japan grants the United States military base rights on its territory in return for a U.S. pledge to protect Japan's security. Although defense officials had hoped that the 50th anniversary of the treaty would compel Tokyo and Washington to work on additional agreements to enhance bilateral defense cooperation, a rocky start under the Democratic Party of Japan (DPJ) government generated concern about the future of the bilateral alliance. Under the Hatoyama Administration, the most prominent controversy concerned the planned relocation of the U.S. Marines' Futenma air station to a less crowded part of Okinawa (see details below), which threw into doubt a comprehensive realignment of U.S. forces in the region and simultaneously raised fundamental questions about the long-standing security relationship between Tokyo and Washington. In May 2010, the Hatoyama government agreed to move forward with the relocation and re-affirmed the centrality of the alliance to Japanese and regional security. Incoming Prime Minister Naoto Kan affirmed his intention to honor the agreement. U.S. officials stress the value of the bilateral re-examination of the alliance fundamentals that accompanied the Futenma deliberations and voice optimism about building a more vital alliance in the future. Concerns remain, however, about the implementation of the plan, the controversy's residual damage to bilateral security ties, and possible gaps in the overall strategic vision for the alliance.

Realignment Agreement and Futenma Relocation Controversy

Under the Bush Administration, a series of Security Consultative Committee meetings (SCC, also known as the “2+2” meeting) of the Japanese and U.S. foreign and defense ministers outlined plans to expand the alliance beyond its existing framework. Key features of the arrangement include a reduction in the number of U.S. Marines in Japan, the relocation of a problematic air base in Okinawa, the deployment of an X-Band radar system in Japan as part of a missile defense system, expanded bilateral cooperation in training and intelligence sharing, and Japan's acceptance of a nuclear-powered aircraft carrier in the Yokosuka Naval Base.

³ U.S. State Department, “Press Availability on International Parental Child Abduction, Kurt M. Campbell, Assistant Secretary, Bureau of East Asian and Pacific Affairs,” February 2, 2010.

⁴ For more information on the U.S.-Japan alliance, see CRS Report RL33740, *The Changing U.S.-Japan Alliance: Implications for U.S. Interests*, by Emma Chanlett-Avery and Weston S. Konishi.

The 2006 agreement between the U.S. and Japanese governments to relocate the Futenma Marine Air Station from its current location in crowded Ginowan to Camp Schwab is the centerpiece of the planned realignment of U.S. forces in Japan. Per the agreement, the redeployment of the III Marine Expeditionary Force (III MEF), which includes 8,000 U.S. personnel and their dependents, to new facilities in Guam⁵ would lead to the return of thousands of acres of land to the Japanese. Japan agreed to pay around 60% of the \$10.3 billion estimated costs. The transfer is contingent upon finding replacement facilities for the Futenma base. After 13 years of negotiations, U.S. and Japanese officials settled on Camp Schwab because of its location in Nago, a far less congested area of Okinawa.

The reduction of Marines on Okinawa seeks to quell the political controversy that has surrounded the presence of U.S. forces in the southernmost part of Japan for years. Public outcry against the bases has continued since the 1995 rape of a Japanese schoolgirl by an American serviceman, and was renewed after a U.S. military helicopter crashed into a crowded university campus in 2004. Though constituting less than 1% of Japan's land mass, Okinawa currently hosts 65% of the total U.S. forces in Japan. The current controversy reflects a fundamental tension in the relationship between Okinawa and the central government in Tokyo: while the country reaps the benefit of the U.S. security guarantee, the Okinawans must bear the burden of hosting thousands of foreign troops. Although the host cities are economically dependent on the bases, residents' grievances include noise, petty and occasionally violent crime, and environmental degradation stemming from the U.S. presence. The May 2010 2+2 agreement affirms the importance of reducing the bases' impact on local communities and enhancing communication with the affected population.

Burden-Sharing Issues and SOFA

The DPJ has suggested that it will seek to reduce the amount of host nation support that it pays to the United States to alleviate the cost of the troop presence. According to Pentagon reports, Japan has over the years provided up to \$4 billion annually in direct and indirect Host Nation Support (HNS), which constitutes about 75% of the total cost of maintaining troops in Japan. Japan pays for most of the salaries of about 25,000 Japanese employees at U.S. military installations. The current agreement calls for Japan to pay about 140 billion yen annually (about \$1.4 billion) through FY2010 to defray the costs of stationing troops in Japan. The DPJ has also supported revising the Status of Forces Agreement (SOFA) in order to address local governments' concern with how U.S. servicemen are handled in criminal investigations.

F-22 Debate

Japan has expressed interest in purchasing F-22A Raptor aircraft from the United States to replace its aging fleet of F-4 fighters. Some Japanese defense officials regard the potential sale of the F-22 as something of a test of the U.S. strategic commitment to the bilateral alliance. Current U.S. legislation restricts exports of the F-22 to foreign countries in a provision known as the "Obey Amendment." The 2010 Department of Defense Appropriations Act (P.L. 111-118) maintains this prohibition, but also contains a provision that allows the Pentagon to begin to design a version of the aircraft for export if foreign sales are eventually allowed. If Congress and the Administration

⁵ For more information, see CRS Report RS22570, *Guam: U.S. Defense Deployments*, by Shirley A. Kan and Larry A. Niksch.

do not approve F-22 sales to Japan, experts believe that Tokyo will likely consider alternative fighter aircraft, including European-built Typhoon fighters.

Extended Deterrence

Another source of strategic anxiety in Tokyo concerns the U.S. extended deterrence, or “nuclear umbrella,” for Japan. The Bush Administration’s shift in negotiations with Pyongyang triggered fears in Tokyo that Washington might eventually accept a nuclear armed North Korea and thus somehow diminish the U.S. security guarantee for Japan. These anxieties have persisted despite repeated statements by both the Bush and Obama Administrations to reassure Tokyo of the continued U.S. commitment to defend Japan. However, Japan’s sense of vulnerability is augmented by the fact that its own ability to deter threats is limited by its largely defensive-oriented military posture. Given Japan’s reliance on U.S. extended deterrence, Tokyo is wary of any change in U.S. policy—however subtle—that might alter the nuclear status quo in East Asia.

Secret Nuclear Agreement

An issue that has received intense Japanese media attention of late is the recent disclosure by a former vice foreign minister of a secret agreement signed in the 1960s between Tokyo and Washington that tacitly allowed the United States to transit nuclear weapons through Japan without prior approval. The practice was in clear violation of the terms of the 1960 bilateral security treaty and Japan’s three non-nuclear principles (not to possess, produce, or transit nuclear weapons on Japanese territory). Japanese officials who had knowledge of the practice have consistently denied, even in Diet testimony, that it took place. The controversy has raised questions about the integrity of Japan’s non-nuclear principles as well as the apparent lack of transparency in the government’s decision-making process. An experts panel convened by the DPJ reported in March 2010 confirmed this tacit agreement had existed. In April 2010, Foreign Minister Okada apologized for the past governments’ policy and reaffirmed Japan’s three non-nuclear principles policy.

Article 9 Restrictions

In general, Japan’s U.S.-drafted constitution remains an obstacle to closer U.S.-Japan defense cooperation because of a prevailing constitutional interpretation of Article 9 that forbids engaging in “collective self-defense”; that is, combat cooperation with the United States against a third country. Article 9 outlaws war as a “sovereign right” of Japan and prohibits “the right of belligerency.” Whereas in the past Japanese public opinion strongly supported the limitations placed on the Self-Defense Force (SDF), this opposition has softened considerably in recent years. The new ruling coalition in Tokyo remains deeply divided on amending Article 9 of the constitution and is unlikely to take up deliberation of the issue in the near term. Since 1991, Japan has allowed the SDF to participate in non-combat roles in a number of United Nations peacekeeping missions and in the U.S.-led coalition in Iraq.

Figure 2. Map of Military Facilities in Japan



Source: Map Resources. Adapted by CRS.

Economic Issues⁶

Trade and other economic ties with Japan remain highly important to U.S. national interests and, therefore, to the U.S. Congress.⁷ By the most conventional method of measurement, the United States and Japan are the world's two largest economies,⁸ accounting for around 40% of world gross domestic product (GDP), and their mutual relationship not only has an impact on each other but on the world as a whole. Furthermore, their economies are intertwined by merchandise trade, trade in services, and foreign investments.

⁶ This section was written by William Cooper.

⁷ For a more complete treatment of U.S.-Japan economic ties, see CRS Report RL32649, *U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options*, by William H. Cooper.

⁸ China's economy is now larger than Japan's by another method of measurement: purchasing power parity.

Overview of the Bilateral Economic Relationship

Although Japan remains important economically to the United States, its importance has slid as it has been edged out by other trade partners. Japan was the United States' fourth-largest merchandise export market (behind Canada, Mexico, and China) and the fourth-largest source for U.S. merchandise imports (behind Canada, Mexico, and China) by the end of 2008. These numbers probably underestimate the importance of the United States to Japan's trade since a significant portion of Japanese exports to China are used as inputs to China's exports to the United States and, therefore, are dependent on U.S. demand for China's exports.

At one time Japan was the largest source of foreign direct investment in the United States, but by 2006 had fallen to second place, behind the United Kingdom where it remained at the end of 2008. Japan was the 11th largest target for U.S. foreign direct investment abroad as of the end of 2008. For many years, the United States was Japan's largest export market but became the second largest in 2009 (next to China). The United States was second-largest source of imports as of the end of 2009. The global economic downturn has had a significant impact on U.S.-Japan trade. In 2009, U.S. exports declined by 23.1% from 2008 and imports from Japan declined by 31.1 % causing the U.S. bilateral deficit with Japan to \$44.8 billion. (See **Table 1.**)

Table 1. U.S. Trade with Japan, Selected Years
(\$ billions)

Year	Exports	Imports	Balances
1995	64.3	123.5	-59.1
2000	65.3	146.6	-81.3
2003	52.1	118.0	-66.0
2004	54.4	129.6	-75.2
2005	55.4	138.1	-82.7
2006	59.6	148.1	-88.4
2007	62.7	145.5	-82.8
2008	66.6	139.2	-72.3
2009	51.2	95.9	-44.8

Source: U.S. Commerce Department, Census Bureau. FT900. Exports are total exports valued on a free alongside ship (f.a.s.) basis. Imports are general imports valued on a customs basis.

Despite some outstanding issues, tensions in the U.S.-Japan bilateral economic relationship have been much lower than was the case in the 1970s, 1980s, and early 1990s. A number of factors may be contributing to this trend: Japan's economic problems in the 1990s and in the first few years of this decade changed the general U.S. perception of Japan as an economic "threat" to one of a country with problems; the rise of China as an economic power has caused U.S. policymakers to shift attention from Japan to China as a source of concern; the increased use by both Japan and the United States of the WTO as a forum for resolving trade disputes has depoliticized disputes and helped to reduce friction; and the emphasis in the bilateral relationship has shifted from economic to security matters.

However, the economic problems in Japan and United States associated with the financial crisis and recession and how the two countries deal with those problems have been a major focus of their bilateral economic agenda recently. Japan has been hit particularly hard by the financial crisis and subsequent economic downturn. Japan's gross domestic product (GDP) declined 1.2% in 2008 and 5.2% in 2009. The Economist Intelligence Unit forecasts a modest recovery of 2.8% in 2010. The value of the yen has hit 13-year highs in terms of the U.S. dollar, which will adversely affect Japanese exports to the United States and other countries, contributing to the downturn in Japanese economic growth. Less than three years ago, the yen was valued at \$1=¥124. As of June 7, 2010, it was \$1=¥92.

Bilateral Trade Issues

Japan's Ban on U.S. Beef⁹

In December 2003, Japan imposed a ban on imported U.S. beef in response to the discovery of the first U.S. case of bovine spongiform encephalopathy (BSE or "mad cow disease") in Washington state. In the months before the diagnosis in the United States, nearly a dozen Japanese cows infected with BSE had been discovered, creating a scandal over the Agricultural Ministry's handling of the issue (several more Japanese BSE cases have since emerged). Japan had retained the ban despite ongoing negotiations and public pressure from Bush Administration officials, a reported framework agreement (issued jointly by both governments) in October 2004 to end it, and periodic assurances afterward by Japanese officials to their U.S. counterparts that it would be lifted soon.

In December 2005 Japan lifted the ban after many months of bilateral negotiations but re-imposed it in January 2006 after Japanese government inspectors found bone material among the first beef shipments to have arrived from the United States after the ban was lifted. The presence of the bone material violated the procedures U.S. and Japanese officials had agreed upon that allowed the resumption of the U.S. beef shipments in the first place. The then-U.S. Secretary of Agriculture Johanns expressed regret that the prohibited material had entered the shipments.

In July 2006, Japan announced it would resume imports of U.S. beef from cattle 20 months old or younger. While praising the decision, some officials have called on Japan to broaden the procedures to include beef from older cattle. The first shipments arrived in August 2006. Members of Congress have pressed Japan to lift restrictions on imports of U.S. beef further. On May 27, 2009, the Japan Ministry of Health, Labor, and Welfare and the Ministry of Agriculture, Forestry, and Fisheries reportedly were ready to ask the Food Safety Commission to determine whether it would relax restrictions and allow U.S. beef from cattle younger than 30 months to enter Japan, a decision that could take about six months to be rendered.¹⁰ In a meeting with Japan's Minister of Agriculture, Hirotaka Akamatsu, U.S. Agriculture Secretary Vilsack and USTR Kirk urged Japan to move ahead with reducing the restrictions on beef imports.¹¹

⁹ For more information, see CRS Report RS21709, *Mad Cow Disease and U.S. Beef Trade*, by Charles E. Hanrahan and Geoffrey S. Becker.

¹⁰ *International Trade Daily*. May 28, 2009.

¹¹ *Inside U.S. Trade*. October 16, 2009.

Japan's Eco-Car Program

The U.S. auto industry and a bipartisan group of Member of Congress have raised concerns that the Japanese government is implementing a program to encourage the purchase of low-emissions and fuel-efficient cars in a way that unfairly discriminates against U.S.-made vehicles. Under the program, which went into effect on June 19, 2009, Japanese car buyers can obtain tax incentives if they turn in a car at least 13 years old and purchase one that meets Japan's fuel efficiency standards, and are eligible for an additional tax break if they purchase a car that exceeds those standards by at least 15%. While not explicitly disqualifying U.S.-made cars or other imported vehicles, the program did disqualify cars that were imported under the preferential handling program (PHP). The Japanese government implemented the PHP in 1986 to allow foreign models that are imported in small volumes to circumvent Japanese fuel emissions and fuel efficiency certification procedures. Since U.S.-made cars enter through that program, they would have been disqualified from the incentive program.¹²

Responding to U.S. concerns, Japan announced on January 19, 2010, that cars imported under the PHP program would be eligible for the program if they met Japan's fuel efficiency standards based on their country's testing procedures. Japan subsequently listed eight cars that would be eligible based on U.S. Environmental Protection Agency (EPA) "city mileage" measurements. While welcoming Japan's decision as a welcome first step, the U.S. auto industry and some Members of Congress have argued that using city mileage measurements, rather than combined city/highway measurements, unnecessarily restricts the number of models that would be eligible. They have requested that Japan adopt the city/highway mileage standard in determining eligibility. The program was due to expire on March 31, 2010, but was extended to the end of September.¹³

U.S.-Japan FTA

With the conclusion of negotiations on a U.S.-South Korean free trade agreement (KORUS FTA) on April 1, 2007, and the formation of FTAs among other East Asian countries, interest seems to have increased in the possibility of a U.S.-Japan FTA. Japanese business leaders are concerned about being adversely affected by the trade preferences that South Korean exporters would gain under the proposed KORUS FTA. In May 2007, a Japanese government advisory panel recommended that Japan undertake the formation of an economic partnership agreement (EPA), Japan's version of an FTA, with the United States. During their late April 2007 summit meeting, President Bush and Prime Minister Abe touched on the issue. According to a White House fact sheet, they agreed to exchange information about one another's FTAs and EPAs with third countries. However, in a October 2, 2008 speech, Assistant USTR stated that she did not believe a U.S.-Japan FTA would occur in the near term primarily because of the stumbling block that would result over the issue of agricultural policy.¹⁴ The DPJ's 2009 election manifesto calls for the negotiation of a U.S.-Japan FTA.

¹² *International Trade Reporter*. February 11, 2010.

¹³ *Inside U.S. Trade*. December 25, 2009.

¹⁴ *International Trade Reporter*. October 16, 2008.

Insurance

Market access in Japan for U.S. and other foreign insurance providers has been the subject of bilateral trade agreements and discussion for some time. Current U.S. concerns center around making sure that Japan adheres to its agreements with the United States, especially as Japan's domestic insurance industry and government regulations of the industry are restructured. Specifically, American firms have complained that little public information is available on insurance regulations, how those regulations are developed, and how to get approval for doing business in Japan. They also assert that government regulations favor insurance companies that are tied to business conglomerates—the keiretsu—making it difficult for foreign companies to enter the market.

The United States and Japan concluded agreements in 1994 and 1996 on access to the Japanese market for U.S. providers of life and non-life insurance and also on maintaining competitive conditions for foreign providers in the specialty insurance market—cancer insurance, hospitalization, nursing care, and personal accident insurance. U.S. and Japanese officials continue to meet under those two agreements, and U.S. providers have been able to expand their presence in Japan under them, according to the Office of the U.S. Trade Representative (USTR).

However, the United States has raised concerns about the operations of companies under the Japan Postal Service, which offer insurance services that directly compete with U.S. and other privately owned providers. A Japanese government privatization framework released in July 2006 generated statements from the American Chamber of Commerce in Japan and from the American Council of Insurers arguing that the privatization plan would allow Japan Post to compete with foreign insurance providers by offering new products before it has been completely privatized. On October 1, 2007, the Japanese government began the privatization. However, the Democratic Party of Japan (DPJ)-led government has taken steps to scale-back some of the privatization, and on May 31, 2010, the Lower House of the Japanese Diet passed legislation to do so. The United States and the European Union have complained to the Japanese government that the legislation would give Japan Post legal, tax, and regulatory exemptions not given to private companies, giving Japan Post competitive advantage that would also violate Japan's commitments under the WTO's General Agreement on Trade in Services (GATS). The legislation would still require approval by the Upper House before entering into force.¹⁵

The Byrd Amendment

Japan, together with other major trading partners, challenged U.S. trade laws and actions in the World Trade Organization (WTO). For example, Japan and others challenged the so-called Byrd Amendment (which allows revenues from countervailing duty and antidumping orders to be distributed to those who had been injured). The WTO ruled in Japan's favor. In November 2004, the WTO authorized Japan and the other complainant-countries to impose sanctions against the United States. In September 2005, Japan imposed 15% tariffs on selected imports of U.S. steel products as retaliation, joining the EU and Canada. It is the first time that Japan had imposed punitive tariffs on U.S. products. In the meantime, a repeal of the Byrd Amendment was included in the conference report for S. 1932, the Deficit Reduction Act of 2005, that was signed by the President into law (P.L. 109-171) on February 8, 2006. The measure phases out the program over

¹⁵ *Inside U.S. Trade*. June 4, 2010.

a period ending October 1, 2007.¹⁶ Although Japan has praised the repeal of the Byrd Amendment, it criticized the delayed termination of the program and has maintained the sanctions on imports from the United States. Consequently, Japan announced in August 2006 that it would maintain the tariff sanctions until October 1, 2007. In August 2007, Japan notified the WTO that it would extend the sanctions for another year as it did in August 2008 and most recently in August 2009.

WTO Dispute

On January 10, 2008, Japan requested permission from the WTO to impose sanctions on U.S. imports valued at around \$250 million in retaliation for the failure of the United States to comply with a January 2007 WTO decision against the U.S. practice of “zeroing” in antidumping duty determinations. On April 24, 2009, a WTO compliance panel agreed with Japan that the United States was not in compliance with the original WTO ruling. On August 18, 2009, the WTO Appellate Body, having heard the U.S. appeal of the compliance panel decision, announced its decision that the United States was not in compliance with the earlier determination, thus upholding the compliance panel decision, opening the way for Japanese sanctions against the United States.¹⁷ On May 5, 2010, Japan asked the WTO to proceed with determining if Japan can impose the sanctions. The practice of zeroing is one under which the U.S. Department of Commerce treats prices of targeted imports that are above fair market value as zero dumping margin rather than a negative margin. It results in higher overall dumping margins and U.S. trading partners have claimed and the WTO has ruled that the practice violates WTO rules.¹⁸

The Doha Development Agenda

Japan and the United States are major supporters of the Doha Development Agenda (DDA), the latest round of negotiations in the WTO. Yet, the two have taken divergent positions in some critical areas of the agenda. For example, the United States, Australia, and other major agricultural exporting countries have pressed for the reduction or removal of barriers to agricultural imports and subsidies of agricultural production, a position strongly resisted by Japan and the European Union. At the same time, Japan and others have argued that national antidumping laws and actions that member countries have taken should be examined during the DDA, with the possibility of changing them, a position that the United States has opposed.

In July 2006, WTO Director-General Pascal Lamy suspended the negotiations because, among other reasons, the major participants could not agree on the modalities that negotiators would use to determine how much they would liberalize their agricultural markets and reduce agricultural subsidies. Negotiators had been meeting from time to time to try to resuscitate the talks. However, Lamy’s attempt to hold a ministerial meeting to in December 2008 failed when the major parties to the negotiators could not resolve their differences over establishing modalities in agricultural and non-agricultural negotiations. Various groups of WTO members have been meeting to try to establish a foundation for completing the negotiations without success to date.

¹⁶ For more information on the Byrd Amendment, see CRS Report RL33045, *The Continued Dumping and Subsidy Offset Act ("Byrd Amendment")*, by Jeanne J. Grimmer and Vivian C. Jones.

¹⁷ *International Trade Reporter*. July 23, 2009.

¹⁸ *International Trade Reporter*. January 17, 2008.

Japanese Politics¹⁹

The Political Situation in June 2010

Japan's political world, seemingly in constant turmoil for the past several years, received another jolt in late May with two major resignations at the top of the government. One new element to Japan's domestic political scene is that relations between Tokyo and Washington appeared to play a significant role in the most recent developments.

Hatoyama and Ozawa's Resignations

On June 2, 2010, Japanese Prime Minister Yukio Hatoyama resigned from his positions as prime minister and president of the ruling Democratic Party of Japan (DPJ). Hatoyama thus became the fourth consecutive Japanese premier to last a year or less in his post. Also resigning was Ichiro Ozawa, the unpopular Secretary-General of the DPJ who was widely viewed as the government's real power center during Hatoyama's rule. By mid-spring Hatoyama's steadily falling approval ratings, which had been near 75% after he had led the DPJ to an historic victory in August 2009, had sunk below the 20% level, largely due to his image as an ineffectual leader. Perhaps more importantly, support for the DPJ had also fallen precipitously, jeopardizing the party's prospects in elections scheduled for July (see "July 2010 Upper House Elections").

Three factors are commonly attributed to Hatoyama's fall: (1) concerns about Hatoyama's involvement in fundraising scandals; (2) a belief that the real power in Hatoyama's government was Ozawa, the unpopular DPJ Secretary-General who was involved in a fundraising scandal of his own; and (3) the perception that Hatoyama mishandled a disagreement with the United States over whether, where, and how to relocate the Futenma U.S. Marine base in Okinawa, sparking a major crisis in U.S.-Japan relations. It is unclear to what extent DPJ members, the Japanese elite, or the Japanese public blame the Obama Administration for Hatoyama's fall.

Kan's Selection as Premier

Within days, the DPJ selected as its next party president Naoto Kan, who with Hatoyama founded the DPJ in 1996 and who had served in various posts in Hatoyama's Cabinet. The Lower House of Japan's Diet (parliament) then elected Kan as Prime Minister. Kan will have to run for party president again when the DPJ holds its regularly scheduled leadership election in September 2010. Kan announced a three-pronged platform that heavily emphasizes domestic issues: reviving Japan's economy, rebuilding Japan's public finances, and turning around its social security system. The choice of priorities is not surprising, considering that numerous polls indicate most Japanese are worried about economic issues.

As for international relations, Kan stated the U.S.-Japan relationship serves as "the cornerstone" for Japan's foreign policy, but also that Japan needs to "deepen our relations with other Asian countries." He also pledged to uphold the Futenma relocation agreement Hatoyama had reached with the United States. Ascertaining where the DPJ as a whole stands on foreign policy issues is

¹⁹ This section was written by Mark Manyin, Weston Konishi, and Emma Chanlett-Avery. For more, see CRS Report R40758, *Japan's Historic 2009 Elections: Implications for U.S. Interests*, by Weston S. Konishi.

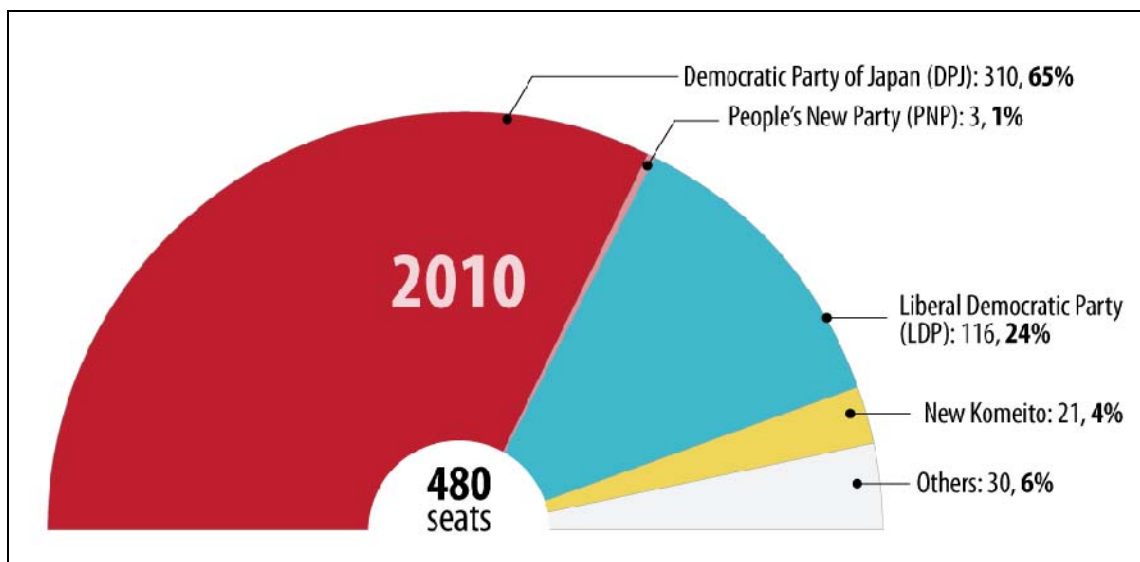
complicated by the party's makeup. It was formed in 1998 as a merger of four smaller parties and was later joined by a fifth grouping. There are considerable internal divisions between the DPJ's hawkish/conservative and passivist/liberal wings.

July 2010 Upper House Elections

Kan's first electoral test as prime minister will come in July, when half of the Diet's Upper House seats will be up for election. The DPJ has a one-vote majority in that chamber by virtue of an alliance with a handful of independent members and with the small People's New Party (PNP) that participates in a ruling coalition with the DPJ. The DPJ's fortunes in the election may have a formative impact on a number of issues in U.S.-Japan relations. Approval by both chambers of the Diet generally is needed to pass legislation, so a divided parliament could introduce more gridlock into Japanese decision-making.²⁰

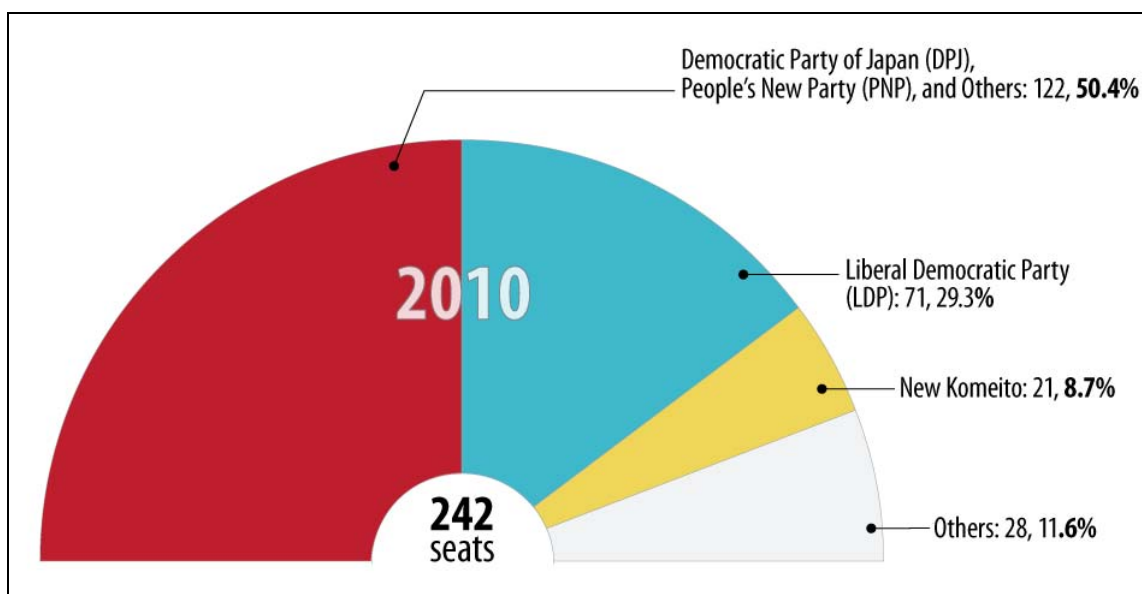
In the immediate aftermath of Kan's selection as prime minister, the DPJ's approval ratings soared – to above 40% in many polls – in many cases tripling the LDP's numbers. This has led some analysts to speculate that the DPJ may win enough seats to win a majority in the Upper House. If this scenario is borne out, it would represent a remarkable shift; until early June, most analysts expected the DPJ will either lose seats or not gain enough to control the Upper House on its own. It would also be a break from a pattern in which Japanese voters use the elections for the Upper House, which has more limited powers than the Lower House, to send a “protest message” to the government.

Figure 3. Party Affiliation in Lower House



Source: Derived from April 27, 2010 Lower House data.

²⁰ A two-thirds vote in the Lower House can override a vote in the Upper House. However, as shown in **Figure 3**, the DPJ-led coalition's Lower House majority falls just short of the two-thirds threshold.

Figure 4. Party Affiliation in Japan's Upper House

Source: Derived from May 11, 2010 Upper House data.

Brief Profile of Naoto Kan

Kan has a reputation as a center-left reformer who champions transparency and accountable governance.²¹ He first came to prominence in the mid-1990s when, as Health Minister while cooperating with the LDP government, he forced the release of government documents that showed his ministry's role in importing and then covering up the distribution of HIV-contaminated blood that had infected thousands of hemophilia patients. Kan has long championed the administrative reforms of streamlining government and eliminating wasteful government practices that have been a popular element of the DPJ's brief tenure in power. During the late 1990s, he was known to say that his goal was to make the DPJ the party of Thatcher and Blair,²² in the sense of reducing government's role in Japanese society while simultaneously expanding assistance to weaker segments of society.²³

Kan is expected to benefit from his humble and urban origins. Unlike the last four prime ministers, he is not the son or grandson of a former prime minister, and he is the first in nearly a decade who is not the son of a politician. Kan's reputation as a relatively "clean" politician stands in contrast to the "money and politics" image that hovered around Ozawa and to a lesser extent Hatoyama. Indeed, many of Kan's early moves appear to be attempts to purge much of Ozawa's influence over the party.

²¹ "The Virtues of Kan," *Observing Japan* blog, June 3, 2010, available at <http://www.observingjapan.com/2010/06/virtues-of-kan.html>.

²² This is a reference to British Prime Ministers Margaret Thatcher (1979-1990) and Tony Blair (1997-2007). The conservative Thatcher engaged in a series of market-oriented reforms, most of which the left-of-center Blair continued while also adopting social welfare policies to cushion the reforms' adverse effects.

²³ Gerald L. Curtis, *The Logic of Japanese Politics*, Gerald L. Curtis, *The Logic of Japanese Politics* (New York: Columbia University Press, 1999), pp. 193-94.

The LDP

Now Japan's largest opposition party, the LDP appears to have been demoralized by its fall from power. According to most polls, the party did not benefit from the Hatoyama Cabinet's unpopularity. Indeed, in the spring of 2010, a number of prominent LDP members left the party to become independents, contributing to an image of a party in disarray.

Following the LDP's defeat in the August 2009 Lower House elections, then-Prime Minister Taro Aso resigned from the premiership and his position as LDP president. In September, the LDP selected Sadakazu Tanigaki as its new leader. One analyst observes that the party is divided into three ideological groupings: "pure conservative" hawks, populist "liberals" like Tanigaki who focus on promoting a welfare state, and "neo-liberals" who emphasize small government, administrative reform, economic growth, and free markets. The 2009 election appears to have reshaped the LDP in at least two ways. First, the DPJ's dominance in urban areas has made the LDP a more rural-based party than ever before in its history. Second, the party is not only smaller but also is stacked with leaders of its "old guard" because many of the LDP's newer—and generally younger—members were effectively purged before the election in order to ensure that senior leaders could keep their seats.

Japan's Demographic Challenge

Japan's combination of a low birth rate, strict immigration practices, and a rapidly aging population present policymakers with a significant challenge. Polls suggest that Japanese women are avoiding marriage and child-bearing because of the difficulty of combining career and family in Japan; the birthrate has fallen to 1.25, far below the 2.1 rate necessary to sustain a population size. Japan's current population of 128 million is projected to fall to about 100 million by mid-century. Concerns about a huge shortfall in the labor force have grown, particularly as the elderly demand more care. Japan's National Institute of Population and Social Security Research projects that the working-age population will fall from 85 million in 2005 to 70 million by 2030. Japan's immigration policies have traditionally been strictly limited, but policy adjustments have allowed for a larger foreign labor force. With government encouragement, some private firms offer incentives to employees with children.

Selected Legislation

111th Congress

H.R. 44 (Bordallo). Seeks recognition of the loyalty and suffering of the residents of Guam who suffered unspeakable harm as a result of the occupation of Guam by Imperial Japanese military forces during World War II, by being subjected to death, rape, severe personal injury, personal injury, forced labor, forced march, or internment, as well as payments for death, personal injury, forced labor, forced march, and internment. Referred to Senate Committee on the Judiciary on March 5, 2009.

H.R. 423 (Mica). Seeks to provide compensation for certain World War II veterans who survived the Bataan Death March and were held as prisoners of war by the Japanese. Referred to House Subcommittee on Military Personnel on February 6, 2009.

H.R. 2055 (Thompson) and S. 817 (Cantwell). The Pacific Salmon Stronghold Conservation Act of 2009. Among other items, authorizes the sharing of status and trends data, innovative conservation strategies, conservation planning methodologies, and other information with North Pacific countries, including Japan, to promote salmon conservation and habitat. In April 2009, the House bill was referred to House Natural Resources Committee's Subcommittee on Insular Affairs, Oceans and Wildlife, which held a hearing on the bill on June 16, 2009. The Senate bill was referred to the Senate Committee on Commerce, Science, and Transportation in April 2009.

H.R. 2647 (Skelton) and S. 1390 (Levin); P.L. 111-84. The National Defense Authorization Act for FY2010. Signed into law October 28, 2009. On July 21, 2009, the Senate passed (58-40, Record Vote Number: 235) an amendment (S.Amdt. 1469) to S. 1390, the FY2010 National Defense Authorization Act, that eliminated funding for additional F-22 aircraft production. In conference, this provision was deleted, but both chambers agreed not to authorize funding for additional procurement of the F-22 in FY2010. Section 1250 requires the Secretary of Defense to report to Congress on the potential for foreign military sales of the F-22A fighter aircraft. Section 2835 establishes an Interagency Coordination Group of Inspectors General for Guam Realignment, which among other items, is required to submit by February 1 an annual report on Japan's budgetary contribution to the relocation of military personnel on Guam. The conference committee deleted the portion (in Section 2833) of the House version of H.R. 2647 that would have required construction firms that get contracts for projects associated with the expansion of U.S. military facilities on Guam to pay their workers wages consistent with the labor rates in Hawaii.

H.Res. 933 (Dingell). Commending the Government of Japan for its current policy against currency manipulation and encouraging the Government of Japan to continue in this policy. Introduced November 19, 2009; referred to House Ways and Means Committee.

H.Res. 125 (C. Smith). Calling on Brazil in accordance with its obligations under the 1980 Hague Convention on the Civil Aspects of International Child Abduction to obtain, as a matter of extreme urgency, the return of Sean Goldman to his father David Goldman in the United States; urging the governments of all countries that are partners with the United States to the Hague Convention to fulfill their obligations to return abducted children to the United States; and recommending that all other nations, including Japan, that have unresolved international child abduction cases join the Hague Convention and establish procedures to promptly and equitably address the tragedy of international child abductions. Passed/agreed to in House on March 11, 2009.

H.Res. 997 (Sutton). Expressing the sense of the House of Representatives regarding unfair and discriminatory practices of the government of Japan in its failure to apply its current and planned extension of the Government's Eco-friendly Vehicle Purchase and scrappage program to imported vehicles made by U.S. automakers. Introduced January 5, 2010; referred to the Committee on Ways and Means, and in addition to the Committee on Foreign Affairs, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

S.Res. 388 (Stabenow). A resolution expressing the sense of the Senate regarding unfair and discriminatory measures of the Government of Japan in failing to apply the Eco-Friendly Vehicle Purchase Program to vehicles made by United States automakers. Introduced January 20, 2010; referred to the Committee on Finance.

Author Contact Information

Emma Chanlett-Avery, Coordinator
Specialist in Asian Affairs
echanlettavery@crs.loc.gov, 7-7748

William H. Cooper
Specialist in International Trade and Finance
wcooper@crs.loc.gov, 7-7749

Mark E. Manyin
Specialist in Asian Affairs
mmanyin@crs.loc.gov, 7-7653